



NATIONAL INSURANCE BILL 1974

Report by the Government Actuary on the Financial Provisions of the Bill

*Presented to Parliament by the Secretary of State for Social Services
by Command of Her Majesty
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REPORT BY THE GOVERNMENT ACTUARY ON THE FINANCIAL PROVISIONS OF THE BILL

To the Right Hon. BARBARA CASTLE, M.P.,
Secretary of State for Social Services.

Madam,

I submit the following report on the financial provisions of the National Insurance Bill 1974.

1. The Bill provides for changes in benefits and contributions under the National Insurance and Industrial Injuries Acts to come into force at dates to be appointed. It has been announced, however, that flat-rate benefits will be increased from the week beginning 22 July 1974 and that the changes in contributions will apply from 5 August 1974 and these dates have been assumed for the purpose of the financial estimates. The main provisions are summarised below.

National Insurance

Benefits

2. It is proposed to increase the standard weekly rates of retirement, invalidity and widows' pensions by £2.25 to £10.00 for a single person and by £3.50 to £16.00 for a married couple. The standard weekly rates of unemployment and sickness benefit will be increased by £1.25 to £8.60 for a single person and by £2 to £13.90 for a married couple. There will be broadly corresponding increases in other weekly rates. A summary of the principal rates of benefit before and after the proposed changes is given in Appendix 1.

3. In line with the proposed increase in the upper limit of earnings for the assessment of graduated contributions (see paragraph 5), the Bill provides for an increase from £54 to £62 a week in the upper limit of the range of earnings on which earnings-related supplements to unemployment and sickness benefit and widow's allowance are calculated. The change will apply to benefit based on earnings in 1975-76 and the supplements will then be calculated as one-third of the relevant earnings in the range £10 to £30 a week, together with 15% of earnings in the range £30 to £62 a week.

4. The Bill also provides for changes in the earnings rule for retirement pensioners within 5 years after minimum pension age and for the dependent wives of retirement and invalidity pensioners. The limit on the amount of earnings before benefit is affected is to be raised from £9.50 to £13 a week and for dependent wives, the band of earnings above this limit over which the reduction in benefit is half the amount of the earnings is to be widened to £4 to bring the provisions into line with those for retirement pensioners.

Contributions and Exchequer supplements

5. It is proposed to raise the upper limit of earnings on which graduated contributions are payable from £54 to £62 a week and to increase the rates of contribution by 0.5% of relevant earnings for both employees and employers.

Thus the graduated contributions for persons fully participating in the scheme will become 5.5% a side on earnings between £9 and £62 a week. For persons who are contracted out the graduated contributions on earnings between £9 and £18 a week will be at the reduced rate of 1.25% a side, so that the existing differential in the rates of contribution will remain unaltered. The extra amounts of graduated contributions will give title to graduated pensions on the present formula.

6. Provision is made for increases in employers' flat-rate contributions but there will be reductions in the flat-rate contributions for adult employees. Self-employed and non-employed persons do not pay graduated contributions and there will be increases in the flat-rate contributions payable by these classes. The proposed changes for adults are shown in Table 1 and a summary of the new rates is given in Appendix 2.

TABLE 1
*Proposed changes in flat-rate
contributions for adults*

	Man			Woman		
	National Insurance	Industrial Injuries	Total	National Insurance	Industrial Injuries	Total
	p	p	p	p	p	p
Employed person:						
Insured person	- 9	—	- 9	- 9	—	- 9
Employer	+42	+2	+44	+36	+2	+38
Self-employed person	+42	—	+42	+34	—	+34
Non-employed person	+34	—	+34	+26	—	+26

7. The increases in flat-rate contributions will give rise to corresponding increases in the Exchequer supplements under Section 7 of the National Insurance Act 1965. The additional payments from the Exchequer under Section 2(4) of the National Insurance and Supplementary Benefit Act 1973 will be increased to £315 million for 1974-75.

The financial effect of the changes

8. The income and outgo under the scheme will depend *inter alia* upon the level of unemployment and the rate of increase in earnings. In accordance with normal practice the assumptions in regard to these factors have been given to me by the Government. I have been instructed to assume for purposes of illustration (i) that the number of unemployed, excluding school-leavers and adult students, will average 600,000 in each year and that, in addition, there will be some 50,000 unemployed school-leavers and adult students and persons whose employment has temporarily stopped, and (ii) that from the beginning of April 1974 average earnings will increase at the rate of 12½% per annum. Indications of the financial effect of variations in these factors are given in a footnote to Table 2.

9. The cost of the proposed increases in benefits is estimated at £740 million for 1974-75 and £1,083 million for 1975-76, the first full year. The additional expenditure will be met partly from the automatic increases in the yield of graduated contributions at the present rates, as earnings rise, and partly from the changes in contribution rates and in the upper earnings limit for graduated

contributions for which provision is made. The corresponding increases in Exchequer supplements and in the additional payment will keep the total Exchequer subvention to the scheme at the present proportion of about 18% of the contributions from insured persons and employers.

TABLE 2

Projected income and outgo of the National Insurance Fund on the illustrative assumptions that earnings increase by 12½% per annum from April 1974 and the number of unemployed (excluding school-leavers and adult students) is 600,000.*

£ million

Financial Year										1974-75	
										Insured persons	Employers
<i>Income:</i>											
Contributions:											
Flat-rate:											
At present rates										707	1,074
Increases due to proposed changes†										—30	245
Graduated:											
At present rates (including "payments in lieu")										1,136	1,136
Increases due to proposed changes†										103	103
										1,916	2,558
Total										4,474	
Exchequer supplements:											
On flat-rate contributions:											
At present rates											436
Increases due to proposed changes											55
Additional payments:											
Under existing legislation											275
Proposed increases											40
Total											806
Interest											77
Total Income											5,357
<i>Outgo:</i>											
Benefits:											
At present rates											4,161
Increases due to proposed changes											740
Transfer to Northern Ireland											36
Administration											170
Other outgo											7
Total outgo											5,114
Excess of income over outgo											243

*A change of one in the percentage rate of increase in earnings assumed would alter the balance of income and outgo by about £10 million and a change of 100,000 in the level of unemployment would alter the balance of income and outgo by about £70 million.

†Because of the time lag before the changes in contributions are reflected in the receipts of the Fund, the increases in contribution income shown in the table are in total some £80 million (insured persons £35 million, employers £25 million) lower than the additional amounts payable in respect of the 8 months over which the new rates will apply during 1974-75.

10. Table 2 shows estimates of the income and outgo of the National Insurance Fund for the financial year 1974-75 on the basis of the existing rates of contributions and benefits and the changes proposed in the Bill. Details of benefit expenditure are given in Appendix 3.

11. The table shows that, on the assumptions made, income will exceed outgo by £243 million in 1974-75. If the proposed rates of contribution were to apply in 1975-76 also, it is estimated that there would be an excess of income over outgo of over £600 million in that year, before making allowance for additional expenditure resulting from the 1975 review of benefit rates.

12. The contributions under the present scheme are, however, due to be replaced in April 1975 by the new system of mainly earnings-related contributions introduced under the Social Security Act 1973. The rates laid down in that Act were fixed at a level estimated to be sufficient to provide a margin of income over outgo if the annual upratings of benefits were in line with the movement of earnings from October 1972. The increases in benefits proposed in the Bill, however, may be expected to result in expenditure substantially higher than if benefits had been uprated on this basis. It is estimated that, disregarding the effect of the temporary fall in the contribution receipts in the early weeks of 1975-76 resulting from the change in the method of collection, the income of the scheme in that year with the rates of contribution provided for in the Social Security Act would fall some £200 million short of expenditure with benefits at the rates now proposed. Further income would therefore be required both to make good this shortfall and to meet additional expenditure resulting from the 1975 review of benefit rates. I understand that it is the Government's intention to introduce legislation later in the year to provide the necessary income after April 1975 to support the new level of benefits.

Old Persons' Pensions

13. It is proposed to increase the weekly rates of old persons' pensions payable under Section 1 of the National Insurance Act 1970 and Section 5(1) of the National Insurance Act 1971 by £1.35 to £6.00 for single persons and by £2.20 to £9.70 for married couples. It is estimated that as a result the cost will be increased by about £5 million to £29 million in 1974-75 and by about £6 million to £27 million in 1975-76. Expenditure on these pensions is met from the Consolidated Fund.

Attendance Allowance

14. It is proposed to increase the higher rate of attendance allowance by £1.80 to £8.00 a week and the lower rate by £1.20 to £5.35 a week. The estimates of expenditure given in the report on the National Insurance and Supplementary Benefit Bill 1973 (Cmnd 5287) were made before the lower rate allowances for the less severely disabled came into payment. In the event the number of awards of these allowances has been lower than had been expected and the estimates of expenditure have been reduced accordingly. The total cost of both higher and lower rate allowances on the basis of the present benefit rates is now estimated at £50 million in 1974-75 and £53 million in 1975-76; the cost of the proposed increases is estimated at £10 million in 1974-75 and £15 million in 1975-76. Expenditure on this benefit is met from the Consolidated Fund.

Industrial Injuries

15. The Bill provides for increases of £1.25 a week in the standard rate of injury benefit and of £3.60 a week in the maximum rate of disablement pension with corresponding increases in other rates and in the allowances payable for incapacity arising from pre-1948 employment. A summary of the principal changes in benefits is given in Appendix 1. Employers' contributions will be increased by 2p a week for adults and by 1p a week for juveniles but employees' contributions will remain unaltered. The increase in contributions will give rise to a corresponding increase in the Exchequer supplements, which are one-fifth of the contribution income.

16. The cost of the proposed increases in benefits is estimated at £26 million for 1974-75 and £37 million in a full year. Estimates of the income and outgo of the Industrial Injuries Fund for 1974-75 are set out in Table 3.

TABLE 3
Estimated income and outgo of the Industrial Injuries Fund

										£ million
Financial Year										1974-75
Income:										
Contributions:										
At present rates...	...	...	...	...	...	...	...	...	...	135
Increases due to proposed changes	...	...	...	...	...	...	...	...	...	14
Exchequer supplements:										
On contributions at present rates	...	...	...	...	...	...	...	...	...	27
Increases due to proposed changes	...	...	...	...	...	...	...	...	...	3
Interest	...	...	...	...	...	...	...	...	...	20
Total										199
Outgo:										
Benefits:										
At present rates...	...	...	...	...	...	...	...	...	...	148
Increases due to proposed changes	...	...	...	...	...	...	...	...	...	26
Administration	...	...	...	...	...	...	...	...	...	20
Total										194
Excess of income over outgo										5

I am, Madam,

Your obedient Servant,

EDWARD JOHNSTON.

Government Actuary's Department,
London.

28 March 1974.

APPENDIX 1

Main standard rates of national insurance and industrial injuries benefits

	Proposed weekly rate	Existing rate
	£	£
NATIONAL INSURANCE BENEFITS:		
Retirement, invalidity and widows' pensions, widowed mother's allowance:		
Personal benefit	10-00*	7-75*
Wife or other adult dependant	6-00*	4-75*
Widow's allowance (first 26 weeks of widowhood)	14-00	10-85
Widow's basic pension	3-00	2-33
Invalidity allowance payable with invalidity pension, when incapacity began before age:		
35	2-05	1-60
45	1-30	1-00
60 for men or 55 for women	0-65	0-50
Unemployment or sickness benefit:		
Personal benefit: Man or single woman	8-60	7-35
Married woman (normal rate)	6-05	5-15
Adult dependant	5-30	4-55
Persons under 18	4-75	4-05
Maternity allowance	8-60	7-35
Attendance allowance:		
Higher rate	8-00	6-20
Lower rate	5-35	4-15
Old persons' pensions:		
Wife	3-70*	2-85*
Any other person	6-00*	4-65*
Guardian's allowance	4-90	3-80
Child's special allowance and increases for children of widows, invalidity and retirement pensioners:		
First child	4-90	3-80
Second child	4-00	2-90
Any other child	3-90	2-80
Increases for children of all other beneficiaries:		
First child	2-70	2-30
Second child	1-80	1-40
Any other child	1-70	1-30
Maternity grant	25-00†	25-00†
Death grant (maximum)	30-00†	30-00†
INDUSTRIAL INJURIES BENEFITS:		
Injury benefit	11-35	10-10
Disablement benefit (100 per cent assessment)	16-40	12-80
Unemployability supplement	10-00	7-75
Special hardship allowance (maximum)	6-36	5-12
Constant attendance allowance (normal maximum)	6-60	5-15
Exceptionally severe disablement allowance	6-60	5-15
Industrial death benefit:		
Widow's pension during first 26 weeks of widowhood	14-00	10-85
Widow's pension now payable at £8-30 rate	10-55	8-30
Widow's pension now payable at £2-33 rate	3-00	2-33
Rates for dependant wives and children are the same as for comparable national insurance benefits		

* If the pensioner or dependant is 80 or over an age addition of 25p is also payable.
 † Lump sum benefits.

APPENDIX 2

MAIN NEW WEEKLY RATES OF FLAT-RATE CONTRIBUTIONS

(existing rates are shown in italics where changed)

1. Employed Persons (other than those contracted out of the graduated scheme)

	National Insurance		Industrial Injuries Insurance		National Health Service		Redundancy Fund (Employer only)	Combined Contributions		
	Employed Person	Employer	Employed Person	Employer	Employed Person	Employer		Employed Person	Employer	Total
	£ 0.542 (0.542)	£ 1.464 (1.444)	£ 0.05 (0.05)	£ 0.11 (0.09)	£ 0.158 (0.158)	£ 0.081 (0.081)		£ 0.75 (0.68)	£ 1.72 (1.58)	£ 2.47 (2.25)
Men over 18	0.542 (0.542)	1.464 (1.444)	0.05 (0.05)	0.11 (0.09)	0.158 (0.158)	0.081 (0.081)	0.063 (0.063)	0.75 (0.68)	1.72 (1.58)	2.47 (2.25)
Women over 18	0.435 (0.445)	1.238 (0.858)	0.04 (0.07)	0.08 (0.07)	0.125 (0.09)	0.081 (0.081)	0.028 (0.028)	0.62 (0.72)	1.48 (1.08)	2.08 (1.78)
Boys under 18	0.461 (0.707)	0.987 (0.707)	0.05 (0.04)	0.05 (0.04)	0.079 (0.04)	0.081 (0.081)		0.77 (0.63)	1.12 (0.87)	1.89 (1.48)
Girls under 18	0.381 (0.607)	0.847 (0.607)	0.03 (0.03)	0.04 (0.03)	0.079 (0.03)	0.081 (0.081)		0.48 (0.72)	0.97 (0.72)	1.45 (1.35)

2. Employed Persons contracted out of the graduated scheme

	National Insurance		Industrial Injuries Insurance		National Health Service		Redundancy Fund (Employer only)	Combined Contributions		
	Employed Person	Employer	Employed Person	Employer	Employed Person	Employer		Employed Person	Employer	Total
	£ 0.542 (0.752)	£ 1.594 (1.764)	£ 0.05 (0.05)	£ 0.11 (0.07)	£ 0.158 (0.158)	£ 0.081 (0.081)		£ 0.87 (0.98)	£ 1.94 (1.88)	£ 2.71 (2.86)
Men contracted out	0.542 (0.752)	1.594 (1.764)	0.05 (0.05)	0.11 (0.07)	0.158 (0.158)	0.081 (0.081)	0.063 (0.063)	0.87 (0.98)	1.94 (1.88)	2.71 (2.86)
Women contracted out	0.518 (0.675)	1.518 (0.858)	0.04 (0.07)	0.08 (0.07)	0.125 (0.09)	0.081 (0.081)	0.028 (0.028)	0.78 (0.78)	1.34 (1.36)	2.12 (1.95)

APPENDIX 2 (continued)

3. Self-Employed Persons

	National Insurance		National Health Service	Total Combined Contribution	
	£	£	£	£	£
Men over 18	2.243	(1.823)	0.167	2.41	(1.99)
Women over 18	1.877	(1.537)	0.133	2.01	(1.67)
Boys under 18	1.272	(1.062)	0.088	1.36	(1.15)
Girls under 18	1.072	(0.902)	0.088	1.16	(0.99)

4. Non-Employed Persons

	National Insurance		National Health Service	Total Combined Contribution	
	£	£	£	£	£
Men over 18	1.733	(1.393)	0.167	1.90	(1.56)
Women over 18	1.357	(1.097)	0.133	1.49	(1.23)
Boys under 18	0.992	(0.812)	0.088	1.08	(0.90)
Girls under 18	0.782	(0.652)	0.088	0.87	(0.74)

APPENDIX 3

Estimated expenditure of the National Insurance Fund on the illustrative assumptions set out in paragraph 8.

£ million

Financial Year										1974-75
Retirement pensions ...	...	...	...	...	...	...	...	...	...	3,558
Widows' benefits and guardians' allowance	...	...	...	...	...	...	...	...	...	324
Unemployment benefits	...	...	...	...	...	...	...	...	...	227
Invalidity benefits	...	...	...	...	...	...	...	...	...	292
Sickness benefits	...	...	...	...	...	...	...	...	...	437
Maternity benefits	...	...	...	...	...	...	...	...	...	49
Death grant	...	...	...	...	...	...	...	...	...	14
Total benefits	...	...	...	...	...	...	...	...	...	4,901
Transfer to Northern Ireland	...	...	...	...	...	...	...	...	...	36
Administration	...	...	...	...	...	...	...	...	...	170
Other outgo	...	...	...	...	...	...	...	...	...	7
Total expenditure	...	...	...	...	...	...	...	...	...	5,114